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UNCLAS SECTION 01 OF 04 LUSAKA 000312

SENSITIVE
SIPDIS

DEPARTMENT PASS TO USTR (BILL JACKSON)
DEPARTMENT PASS TO USAID (FRANKLIN MOORE)

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TAGS: EAID ECIN ELTN ENRG ETRD WTO XA ZA
SUBJECT: NORTH-SOUTH CORRIDOR CONFERENCE: WILL COMMITMENTS
CATALYZE COOPERATION AND CREATE CONNECTIVITY?

LUSAKA 00000312 001.2 OF 004

¶1. (SBU) Summary. Following a tripartite summit in October 2008, and as part of a pilot Aid for Trade initiative, three regional economic communities (RECs) - Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), and Southern African Development Community (SADC) - organized the high-level and well-attended North-South Corridor Conference, held on April 6 and 7, in Lusaka. Participants discussed issues and options for the development of transport and power systems along the trade corridors between South Africa and DR Congo/Tanzania, in order to facilitate commerce between eight African countries and to improve access to and efficiency of ports in eastern and southern Africa. In particular, the bilateral donor and multilateral agencies pledged a sum of USD 1.2 billion for the program, including the only new commitment of GBP 100 million (USD 150 million) over the next five years from the United Kingdom's Department for International Development (DfID), which sponsored the conference. Despite high-level political will and funding, inadequate strategic direction and programmatic coordination within and between eastern and southern African countries may impede the development of the North-South corridor. End summary.

Background

¶2. (U) Most eastern and southern African countries face major constraints to trade due to poor infrastructure and an inadequate regulatory environment. These constraints, which inhibit productivity and competitiveness, include weak transport networks, inadequate power generation, and disparate policies. As part of a long-term vision to establish a common market, the three RECs convened heads of state and government from their member countries on October 22, 2008, in Kampala, to discuss infrastructure development and regulatory reform for economic integration. In response to the final communique from this tripartite summit, as well as the broader Aid for Trade initiative from the Doha Development Round, the three RECs launched the North-South Corridor Pilot Program to improve road and rail links between DR Congo, Malawi, Mozambique, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe. The program also endeavors to increase access to ports in eastern and southern Africa for greater intra-regional and international trade.

Profile of the conference

¶3. (U) On April 6 and 7, Zambian President Banda hosted the North-South Corridor Conference, organized by the three RECs and financed by DfID. This conference convened over 1,000 participants, including three other African presidents (from

Kenya, South Africa, and Uganda), over 20 ministers of commerce, finance, industry, trade, and transport from eastern and southern African countries, high-level representatives from bilateral donors and multilateral agencies, and attendees from the private sector. Franklin Moore, USAID's Deputy Assistant Administrator (DAA) for the Africa Bureau, headed the nine-member U.S. delegation from State and USAID. The conference began with statements by the four African presidents, who collectively characterized the need for infrastructure improvements and the role of the tripartite process. Following a 15-minute film presentation on the concept of the North-South corridor, a pledging forum called upon the bilateral donor and multilateral agency representatives, with little warning, to describe how and to what extent their organizations would support the program. During the next two days, participants engaged in sessions on transport, power, and Aid for Trade, as well as a workshop on the social impact of increased transportation.

Pledges of commitment and cooperation

¶4. (SBU) During the pledging session, numerous bilateral donor and multilateral agencies offered their financial and technical support to the North-South Corridor Pilot Aid for Trade Program. Together, these agencies pledged a sum of USD 1.2 billion for the program, mostly consisting of pre-existing funding commitments. However, the total also includes an additional GBP 100 million (USD 150 million) proposed by DfID for disbursement over the next five years (with an intent to disburse two-thirds of this new pledge within the first two years).

¶5. (U) With the exception of the UK, other donor countries described their support for the development of the North-South corridor without making new financial commitments:

--Finland, France, Germany, and the Netherlands will continue to support relevant activities in institutional capacity building, private sector development, and road construction and maintenance. These countries have channeled much of their funding through the European Commission and/or trust funds, but are considering the option of contributing to the North-South corridor program directly.

--Japan will continue to develop one-stop border posts and improve roads and electrical power transmission along the North-South corridor through concessional loans, with some grant aid/technical cooperation projects.

--United States: DAA Moore said that the USG contributes to physical infrastructure development in Africa primarily through Millennium Challenge Corporation compacts. He noted that through the compacts, the recipient countries themselves determine their funding priorities. DAA Moore also noted the importance of adding value in Africa of goods traded within and exported from Africa.

¶6. (U) The multilateral agencies reaffirmed their existing financial commitments to develop the North-South corridor and other complementary corridors:

--The African Development Bank committed USD 380 million for projects along the North-South corridor. Additionally, it intends to invest USD 160 million on sections of the Nacala corridor, which extends from the North-South corridor and provides an alternative link to the sea (between Zambia, Malawi, and the Nacala port in Mozambique).

--The European Commission committed EUR 115 million (USD 155 million) directly to the North-South corridor program.

--The World Bank committed USD 500 million for projects on the North-South corridor and an equivalent amount for projects on other complementary corridors.

Potential for connectivity through transport

¶7. (U) One technical session included presentations and discussion on surface transport issues. First, the Regional Trade Facilitation Program (launched with support from DfID in 2003 to strengthen pro-poor trade arrangements and institutions in southern Africa) presented its online mapping and spatial statistical tool with a Geographic Information System interface (available at www.rtfp.org) to analyze the components and impacts of regional transport networks. Second, SADC proposed and requested funding for its road (USD 7.4 billion for construction and maintenance over 20 years), rail (USD 7.25 million for studies and consultations and USD 800 million for capital costs), and port (USD 3.55 million for studies and consultations and USD 425 million for infrastructure improvements in the Dar es Salaam port) development projects.

¶8. (U) During the discussion, DfID urged donor agencies and recipient country governments to deepen their partnerships, fulfill mutual commitments, and accelerate program implementation to mitigate economic losses. However, according to the European Investment Bank, such acceleration should not compromise efforts to build sustainability, especially through strategic partnerships with the private sector. In response to SADC's proposal of "hard" infrastructure development projects, the U.S. led other donors to advocate for a greater focus on the complementary "soft" infrastructure improvements, such as expediting inspections at border posts, examining the role of road checkpoints, and strengthening linkages with agribusiness and other sectors. Finally, while EAC reiterated DfID's call to accelerate program implementation, it highlighted the lack of appropriate institutional arrangements, such as regional procurement mechanisms, to absorb donor funding.

Potential for connectivity through power

¶9. (U) Another technical session focused on power generation and transmission. The Regional Electricity Regulators Association (RERA) of Southern Africa, Eastern Africa Power Pool (EAPP), and Southern Africa Power Pool (SAPP) described major projects supported by donors and the private sector to promote and support the energy supply industry, indicating the relative abundance of investments, unlike the dearth for

transport system development. However, each region faces a set of specific challenges. For eastern Africa, EAPP can neither attract nor retain fully qualified staff in its Secretariat to carry out and coordinate cross-country projects. According to RERA and SAPP, the electricity supply industry in southern Africa cannot product enough power to meet the demand in conjunction with the unprecedented economic growth. Consequently, the industry has adopted interim measures, such as rationing electricity to conserve use for increasing energy efficiency and implementing cost-reflective tariffs to attract new investments for re-capitalizing current facilities and expanding power capacity.

¶10. (U) During the discussion, the World Bank committed an additional USD 570 million over the next five years for energy projects in southern Africa and a minimum of USD 100 million over the next three years for such projects in eastern Africa. Along with these commitments, the Bank underscored the need to address tariff reform through negotiations with governments. Both France and Norway advocated for future regional projects to build renewable energy systems that support "green development" and draw from special financing mechanisms. In particular, Norway emphasized the need to build the capacity of the three RECs and regulatory authorities to oversee cross-border projects and harmonize cross-border energy trading policies and practices.

Potential for broader connectivity and cooperation through Aid for Trade

¶11. (U) Given the conception of the North-South corridor development as a pilot program under the Aid for Trade initiative, the conference concluded with a session, which reviewed the sub-regional implementation of this global initiative. The African Development Bank mentioned its development of the USD 1 billion Trade Finance Facility during 2007 - 2008, characterized its focus on infrastructure development (accounting for over 75 percent of trade facilitation funding), and proposed the schedule for future sub-regional reviews (west Africa in June 2009 and central and north Africa during the second half of 2009). The United Nations Economic Commission for Africa (UNECA) identified its role in monitoring the flow of official development assistance (ODA) and presented key trend data. Between 2002 and 2006, while ODA related to Aid for Trade grew by an average of 13 percent, it fell behind total ODA (24%) and non-trade ODA (28%). UNECA attributed this lag to the lack of coherent strategies and action plans with well-coordinated projects to implement Aid for Trade at the country and regional levels. For a donor perspective, the U.S. presented its activities through the Millennium Challenge Corporation, USAID, and other agencies in support of Aid for Trade in Africa, describing the development of infrastructure and information technology as the bulk (85%) of trade-related foreign assistance funding.

Comment

¶12. (SBU) The three RECs fulfilled the terms of the final communique from the tripartite summit in October 2008, and generated the highest level of buy-in from the beneficiary countries for the North-South Corridor Pilot Aid for Trade Program through the conference. While donor countries acknowledged the need and extended their support for this effort, they reached and articulated a broad consensus on three main obstacles to complete the effective implementation of the program. First, in terms of strategic direction, while the program embraces an ambitious agenda of infrastructure development, it does not prioritize regulatory reform to minimize rent-seeking behaviors within countries and to harmonize standards and policies between countries. Such reform will complement and maximize the achievement of results from the infrastructure development efforts. Second, in terms of programmatic coordination, the three RECs lack the institutional capacity and mechanisms to maintain proper oversight of donor funding and to support cross-border transport and power projects. Third, while the three RECs have conceptualized the development of the North-South corridor as a pilot program for the sub-regional implementation of the global Aid for Trade initiative, they have yet to capitalize on the program to engage eastern and southern African countries individually and collectively in the formulation of coherent Aid for Trade strategies and

action plans.

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